

**RISK SHARE CALCULATIONS UNDER GENERIC PHARMACY PROGRAM*****For the time period beginning February 1, 2009***

Effective February 1, 2009, each plan's contract was amended to incorporate, in part, the "generic first" program pursuant to State legislative action. Attachment N of that amendment sets out the special terms and conditions under which Risk Share will be calculated. Paragraph 2(c) stipulates, in part, that the "*actual cumulative Medical Expenses for each Premium Rating Group and in aggregate for all premium rating groups combined for the Contract Year*" shall exclude pharmacy expenses incurred for brand name drugs in non-exempt classes."

The next paragraph goes on to state that the "[e]xcluded pharmacy expenses shall comprise their own risk group and Risk Share settlement shall be calculated on this group separate and apart from the aggregate of all other groups.....[T]hese expenses shall be net of rebates and by the DHS-determined average generic price per prescription as shown in Table 2 of the RIte Care Data Book Amendment for February 1, 2009."

Since the issuance of that amendment, and the subsequent development and dissemination of a tool by which that risk share settlement would be calculated, the plans have expressed some concern and confusion over various aspects of how to best implement a risk sharing settlement tool that was consistent with the contract language and that incorporated into the settlement calculations both the imputed generic cost net of rebates and the excess cost of brand drugs net of rebates over and above the imputed generic value. The Department of Human Services for the State of Rhode Island is issuing this memo to clarify the approach to risk share calculations.

In development of the new schedules for Risk Share effective February 1, 2009 thru June 30, 2009, the State has incorporated the following four changes to the previous Risk Share template. We have

1. incorporated the Generic Cost/Script into the calculations, consistent with the language of the contract;
2. trended that cost forward from 2007 to 2009;
3. allocated rebates to both the imputed generic cost and to the excess brand cost; and
4. clearly incorporated the imputed generic cost net of rebates into the 'all other' settlement schedule.

Page 3 of this memo includes a schedule that is being incorporated into the Risk Share Reporting Template as Report 1b. This new schedule imputes a generic cost by rate cell and derives the excess cost associated with brand name drugs; it allocates the plans' actual rebate amounts to each type of expense for all rate cells; it identifies the imputed generic cost net of rebates that is to be incorporated into the 'all other' settlement schedules; and it calculates the DHS liability for the excess expense net of rebates.

Page 4 of this memo includes a copy of the revised Report 1, the settlement schedule that identifies types of expenses by rate cell. The former settlement schedule has been amended to add a line within the Pharmacy Expense category to pull the Imputed Generic Cost net of Rebates in from Report 1b.

The revised template incorporating these changes will be emailed to representatives at each of the plans within the next few days. Along with that email we will send a second template, updated to include the FY2010 Imputed Generic Cost net of Rebates. We ask that each plan incorporate these templates into the filings that are due on or about November 15, 2009.

Should you have additional questions or concerns, please contact your plan liaison or Ken Stewart, Healthcare Financial Analyst, at 401-462-6354. Thank you for our continued cooperation.

Signed

Deborah J. Florio
Administrator

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RISK SHARE CALCULATION FOR BRAND DRUGS IN NON-EXEMPT CLASSES **For Service Dates February 1, 2009 through June 30, 2009**

| Cap Cell | Generic Cost/Util (a) | # of Scripts (b) | \$ Paid Claims (b) | Imputed Generic Expense (c) | Imputed Generic Rebate (c) | Excess Brand over Generic (d) | Rebate on Excess (d) | Generic Cost (carry to Main Settlement Page) (e) | Excess Cost (f) | DHS Portion 70% |
|--------------|-----------------------------|------------------------|--------------------------|--------------------------------------|-------------------------------------|---|----------------------------|---|-----------------------|--------------------|
| MF <1 | 15.31 | 99 | 9,999 | 1,516 | (137) | 8,483 | (769) | 1,378 | 7,715 | 5,400 |
| MF 1-5 | 17.32 | 159 | 10,999 | 2,754 | (250) | 8,245 | (747) | 2,504 | 7,498 | 5,249 |
| MF 6-14 | 22.93 | 599 | 60,999 | 13,735 | (1,245) | 47,264 | (4,283) | 12,490 | 42,981 | 30,087 |
| M 15-44 | 24.40 | 249 | 30,999 | 6,076 | (551) | 24,923 | (2,258) | 5,525 | 22,665 | 15,865 |
| F 15-44 | 20.45 | 1,099 | 150,999 | 22,475 | (2,037) | 128,524 | (11,646) | 20,438 | 116,878 | 81,815 |
| MF 45+ | 22.23 | 359 | 50,999 | 7,981 | (723) | 43,018 | (3,898) | 7,257 | 39,120 | 27,384 |
| Total | | 2,564.00 | 314,994 | 54,535 | (4,942) | 260,459 | (23,601) | 49,594 | 236,857 | 165,800 |

EXPLANATIONS

- The 'Generic Cost/Util' has been trended forward from 2007 at 2% for 2 years, consistent with other rates.
- The numbers of scripts and the paid claim dollars would be specific to the plan's experience.
- Imputed Generic Expense is the product of Generic Cost per Script multiplied by # Scripts; the Imputed Generic Rebate allocates the plan's actual rebates for brand drugs to the imputed generic cost.
- Excess Brand cost and rebates reflect the difference between the imputed costs and rebates and the total cost for brand drugs in non-exempt classes and their corresponding rebates
- The generic cost net of rebates is carried forward to a separate line on the settlement schedules for all other costs, which are then subjected to the risk corridors. (A copy of that settlement schedule follows.)
- The excess cost net of rebates is settled independently of the risk corridors.

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